

## Message Text

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ACTION PM-07

INFO OCT-01 NEA-11 ISO-00 CIAE-00 INR-10 NSAE-00 RSC-01

IGA-02 SS-20 INRE-00 SSO-00 DRC-01 /053 W

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O 281020Z JAN 74 ZFF-5

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 6020

INFO SECDEF WASHDC IMMEDIATE

COE RIYADH IMMEDIATE

USMTM DHAHRAN

C O N F I D E N T I A L JIDDA 0444

E.O. 11652: GDS

TAGS: MASS, SA

SUBJ: FMS COST ESTIMATES: VISIT OF MG CHESTER MCKEEN

REF: (A) JIDDA 5157 (B) JIDDA 5718

SUMMARY: MINDEF SULTAN OFFERS TO DOUBLE ORDER FOR M-800 SERIES FIVE-TON TRUCKS, BUT INSISTS THAT USG MUST HOLD TO PRICES QUOTED IN ORIGINAL SOLICITATION OF INTEREST LAST MAY. EMBASSY BELIEVES INFLATIONARY INCREASE OF UP TO 15 PERCENT OVER MAY PRICES MIGHT BE ACCEPTABLE. SULTAN PLEASED THAT VISIT OF MG MCKEEN DEMONSTRATES HIGH LEVEL USG INTEREST IN SULTAN'S DISSATISFACTION, BUT ONLY TANGIBLE RESULTS IN FORM OF LOWER PRICES WILL GUARANTEE SALE FOR US INDUSTRY. END SUMMARY

1. AMBASSADOR, MAJOR GENERAL MCKEEN, AND COE REPRESENTATIVES MET WITH MINDEF SULTAN AND SAA ORDNANCE CORPS ACTING CO COL. SWAIL MORNING OF JANUARY 26 TO DISCUSS PROPOSED M-800 SERIES FIVE-TON TRUCK BUY BY MODA. MEETING WAS PRECEDED BY SIX HOURS OF DISCUSSIONS IN RIYADH WITH ORDNANCE CORPS STAFF ON JANUARY 22. AMB NOTED THAT MCKEEN'S VISIT WAS RESULT OF AMBASSADOR CALLING SERIOUSNESS OF PROBLEM TO ATTENTION OF DEPUTY SECRETARY CLEMENTS. SULTAN SEEMED PLEASED THAT HIS COMPLAINT HAD ATTRACTED

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HIGH-LEVEL ATTENTION.

2. SULTAN REJECTED CONTENTION THAT \$20,000 PRICE ESTIMATE FOR M-813 FIVE-TON TRUCKS AND \$35,000 FOR M816 WRECKER COULD BE RESULT OF POOR STAFF WORK, COMMENTING THAT HE WAS DEALING NOT WITH AN INDIVIDUAL NOR WITH A DEPARTMENT, BUT WITH THE USG, WHOSE OFFICIAL LETTERS AND DOCUMENTS HE COULD ONLY REGARD AS ACCURATE STATEMENTS OF FACT. HE OBSERVED THAT HE HAD BEEN EMBARRASSED BY RECENT NECESSITY TO SEEK TWENTY PERCENT INCREASE IN FUNDS TO COMPLETE PURCHASE OF 2 1/2-TON TRUCKS. HE COULD NOT GO BACK A SECOND TIME TO COUNCIL OF MINISTERS AND SAY THAT THIS TIME HE REQUIRED AN EVEN GREATER INCREASE THAN BEFORE IN HIS ORIGINAL ALLOCATION OF FUNDS FOR 5-TON VEHICLES. ALL ORDANCE CORPS PLANNING HAD BEEN PREDICATED ON ESTIMATED \$20,000 AND \$35,000 COSTS OF VEHICLES. EVEN THOUGH USG MIGHT SATISFACTORILY EXPLAIN ITS OWN POSITION, THIS DID NOT ALTER SULTAN'S OWN POSITION IN THE FACE OF HIS GOVERNMENT.

3. SULTAN THEN PROPOSED TO RAISE QUANTITY OF TRUCKS MODA WOULD BUY TO 1000 (SUBSEQUENTLY FOUND TO BE COMPRISED OF 850 TRUCKS AND 150 WRECKERS) IF PRICE QUOTED IN ORIGINAL SOLICITATION OF INTEREST WOULD APPLY. GENERAL MCKEEN REPLIED THAT HE WAS UNABLE TO REPLY TO SULTAN'S OFFER WITHOUT INVESTIGATING ALL RELEVANT FACTORS. HE NOTED THAT IT WAS UNLIKELY THAT ORIGINAL PRICE QUOTED COULD BE OBTAINED, BUT STATED THAT IT MIGHT PROVE POSSIBLE TO OBTAIN THE TRUCKS IN THE \$23,000-\$23,500 PRICE RANGE, DEPENDING IN PART ON HOW MANY OTHER ORDERS MATERIALIZED. PRICES QUOTED IN OCTOBER 4 LETTER OF OFFER UJQ (\$27,018 AND \$53,026) WERE BASED ON MINIMUM PRODUCTION QUANTITY OF 1500. AS QUANTITY INCREASED, PRICE WOULD DECLINE. SULTAN REPLIED THAT MG MCKEEN SHOULD RETURN TO WASHINGTON AND DETERMINE NEW PRICE. SAUDI FUNDS MUST BE OBLIGATED WITHIN TWO MONTHS, SAID SULTAN, OR THEY WOULD REVERT TO MINISTRY OF FINANCE.

4. COMMENT: IT IS OUR ASSESSMENT THAT SULTAN DOES CLEARLY WISH TO CONTINUE TO PROVIDE MODA WITH US-PRODUCED M-SERIES VEHICLES, BUT THAT HE WOULD FIND IT GENUINELY EMBARRASS-  
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ING TO HAVE TO SEEK THE ADDITIONAL 35 AND 50 PERCENT FUNDS REQUIRED TO CARRY OUT VEHICLE PURCHASE PLANS ALREADY APPROVED. EVEN SHOULD HE CONSENT TO TRY THIS, HE COULD ONLY JUSTIFY HIS OWN POSITION BY PLACING FULL BLAME ON USG, BRINGING OUR PRICE RELIABILITY INTO FURTHER DISREPUTE. AT TIME WHEN NUMEROUS LARGE-SCALE INDUSTRIALIZATION AND DEVELOPMENT PROJECTS ARE ON THE HORIZON, WE BELIEVE WE SHOULD MAKE EVERY EFFORT TO WITHSTAND ANY EROSION OF

THE FAITH IN AMERICAN COST ESTIMATES, WHETHER USG OR PRIVATE. WE SHOULD ALSO AVOID ANY GOURNDS FOR FURTHER INROADS OF BRITISH, FRENCH, OR OTHER INTO LUCRATIVE FIELD OF MILITARY SALES. WE BELIEVE SULTAN COULD ABSORB AND ATTRIBUTE TO INFLATIONARY FACTORS AN INCREASE IN VEHICLE COST NOT EXCEEDING 15 PERCENT, I.E., 23,000 FOR BASIC FIVE-TON TRUCK. WE URGE THAT WASHINGTON MAKE EVERY POSSIBLE EFFORT TO OBTAIN LOWEST POSSIBLE PRICE. BELIEVE SULTAN PLREASED THAT HIS LETTER OF DECEMBER 5 (REFTEL) HAS PRODUCED INTEREST IN HIS DISSATISFACTION AT HIGH LEVELS, BUT TEMPOARAY SATISFACTION WILL FADE IF IT IS NOT SUPPORTED BY TANGIBLE RESULTS IN THE FORM OF VEHICLE SALES AT PRICES CLOSE TO THOSE ORIGINALLY ESTIMATED.  
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